

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS

LIBERTY MUTUAL INSURANCE)	
COMPANY AND SUBSIDIARIES,)	
)	
Plaintiff,)	
)	
v.)	Cnsl. Cv. No. 1:05-cv-11048-RCL
)	
UNITED STATES OF AMERICA,)	
)	
Defendant.)	

LIBERTY MUTUAL FIRE INSURANCE)	
COMPANY AND SUBSIDIARIES,)	
)	
Plaintiff,)	
)	
v.)	Former Cv. No. 1:05-cv-11049-RCL
)	
UNITED STATES OF AMERICA,)	
)	
Defendant.)	

DECLARATION OF ROY K. MORELL

I, Roy K. Morell, hereby declare as follows:

1. I have been employed by Liberty Mutual Insurance Company since 1972 and in the Actuarial Department since 1973. My duties have included actuarial analysis of loss reserves and other responsibilities. My current position is Vice President and Chief Actuary.

2. Salvage is property that an insurance company becomes entitled to when it pays a claimant's loss. An example of salvage is a totaled automobile.

3. Subrogation is the right an insurance company obtains on payment of a claimant's loss to pursue the claimant's remedies against third parties. An example of subrogation is an insurance company's claim against the insurance company of the driver who was at fault in an automobile accident. (Hereinafter, salvage and subrogation are referred to as "salvage.")

4. The 1989 and 1990 Annual Statements of Liberty Companies reflected some estimated salvage, but not all, depending on the line of business and the type of unpaid loss reserve.

5. Lines of business and loss reserves for which Liberty Companies reflected estimated salvage recoverable on their Annual Statements collectively are referred to herein as Net Lines because the estimated salvage recoverable reduced their unpaid loss reserves and thus their losses incurred reported on the Annual Statements. At year-end 1989 and 1990, Liberty Companies had certain estimated salvage which had reduced its unpaid loss reserves and losses incurred on Net Lines on their Annual Statements.

6. Lines of business and reserves for which Liberty Companies did not reflect estimated salvage recoverable on their Annual Statements collectively are referred to herein as Gross Lines because the unpaid loss reserves were reported gross of estimated salvage recoverable. At year-end 1989 and 1990, Liberty Companies had additional estimated salvage on Gross Lines which had not reduced losses incurred or otherwise been taken into account on their Annual Statements.

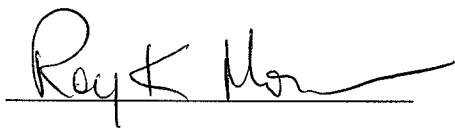
7. The relevant year-end 1989 and 1990 undiscounted estimated salvage amounts of Liberty Companies were as follows:

UNDISCOUNTED SALVAGE	<u>12/31/89</u>		<u>12/31/90</u>
	Net Lines	Gross Lines	Net Lines
Liberty Mutual Ins. Co.	231,389,202	65,179,800	245,157,226
Liberty Mutual Fire Ins. Co.	25,126,347	7,242,200	26,646,000
Liberty Companies total	256,515,549	72,422,000	271,803,226

8. On their 1991 Annual Statements, filed on or before March 17, 1992, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, and Liberty Insurance Company disclosed the amounts of year-end 1990 and 1991 estimated salvage on Net Lines. A copy of the relevant portions of these Annual Statements is attached to this Declaration as Attachment Morell-1.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on September 28, 2006.

A handwritten signature in black ink, appearing to read "Roy K. Morell", is written over a horizontal line.

Roy K. Morell

FORM 2

ANNUAL STATEMENT
OF THE
LIBERTY MUTUAL
INSURANCE COMPANY

OF
BOSTON
IN THE STATE OF
MASSACHUSETTS
TO THE
Commissioner of Insurance

OF THE
STATE OF
FOR THE YEAR ENDED
DECEMBER 31, 1991

1991

FIRE AND CASUALTY

1991

NOTES TO FINANCIAL STATEMENTS

17. Salvage and Subrogation

The Company's case reserves for loss and loss adjustment expenses are not reduced for anticipated recoveries of salvage and subrogation. Salvage and subrogation received in cash is reflected as a reduction of paid losses upon receipt. However, the historical paid losses used in developing bulk reserves are net of salvage and subrogation received. As a result, reserves for loss and loss adjustment expenses as reported in Schedule P—ANALYSIS OF LOSSES AND LOSS EXPENSES, Part 3A—UNDERWRITING AND INVESTMENT EXHIBIT, and on Page 3—LIABILITIES, SURPLUS AND OTHER FUNDS, lines #1 and #2, which include bulk reserves, are net of anticipated recoveries of salvage and subrogation at December 31, 1991 and 1990 as follows:

Net Anticipated Salvage and Subrogation as of 12/91												
Accident Year (+000)												
Line	Prior	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	TOTAL
HOMEOWNERS	0	0	0	19	41	122	207	575	1,140	1,260	1,904	5,268
PRIVATE PASSENGER AUTO LIABILITY	0	4	8	38	141	330	622	1,126	3,254	7,026	12,068	24,617
COMMERCIAL AUTO LIABILITY	0	13	163	51	120	329	434	1,553	2,257	3,773	3,096	11,789
WORKERS COMPENSATION	1,466	355	645	1,282	3,238	10,066	21,309	29,223	37,897	39,227	45,677	190,385
COMMERCIAL MULTIPLE-PERIL	0	0	0	59	111	256	346	944	1,461	1,823	1,599	6,599
SPECIAL LIABILITY	0	0	0	0	0	0	0	0	3	1	37	41
OTHER LIABILITY	0	0	0	0	126	268	185	381	502	346	167	1,975
SPECIAL PROPERTY	0	0	0	2	19	66	154	412	355	447	980	2,435
AUTO PHYSICAL DAMAGE	0	0	0	0	0	0	34	284	1,410	3,708	6,502	11,938
FIDELTY/SURETY	0	0	0	4	132	24	51	40	29	20	0	300
PRODUCT LIABILITY	0	0	0	0	95	42	87	146	248	34	189	841
TOTAL	1,466	372	816	1,453	4,023	11,503	23,429	34,684	48,556	57,665	72,219	256,188

Net Anticipated Salvage and Subrogation as of 12/90												
Accident Year (+000)												
Line	Prior	1982	1983	1984	1985	1986	1987	1988	1989	1990		TOTAL
HOMEOWNERS	42	0	36	55	47	149	556	974	1,570	1,805		5,234
PRIVATE PASSENGER AUTO LIABILITY	28	26	45	76	406	501	963	2,385	5,604	8,800		18,834
COMMERCIAL AUTO LIABILITY	16	13	180	57	163	517	552	2,208	2,695	3,204		9,505
WORKERS COMPENSATION	2,624	268	1,001	1,769	5,361	13,570	27,648	34,700	38,278	30,776		155,995
COMMERCIAL MULTIPLE-PERIL	8	0	26	136	146	517	674	1,382	2,072	2,442		7,403
SPECIAL LIABILITY	0	0	0	0	0	0	0	7	3	4		14
OTHER LIABILITY	101	0	0	0	182	269	282	456	599	394		2,283
SPECIAL PROPERTY	30	0	4	4	41	129	490	475	548	680		2,401
AUTO PHYSICAL DAMAGE	0	371	244	189	180	25	298	1,548	5,001	12,734		20,590
FIDELTY/SURETY	15	0	0	29	135	32	54	72	46	24		407
PRODUCT LIABILITY	242	0	0	44	173	84	125	190	265	38		1,161
TOTAL	3,106	678	1,536	2,359	6,834	15,793	31,642	44,397	56,581	60,901		223,827

The amounts of anticipated salvage and subrogation reported above include, where information was available or estimable, anticipated salvage and subrogation reflected in the Company's loss and loss adjustment expense reserves assumed from various involuntary pools and associations.

18. Financial Guaranty Insurance Exposures

The Company has no financial guaranty insurance exposure.

19. Interest Rate Swap Contracts

The Company has not entered into any interest rate swap arrangements.

20. Asset Transfers with Put Options

The Company has not entered into any asset transfers with put options.

21. Direct Premium Written by Managing General Agents/Third Party Administrators

The Company has no premiums written through managing general agents or third party administrators.

22. Gain or Loss for Uninsured A & H Plans and the Uninsured Portion of Partially Insured Plans

The Company has not experienced any gain or loss from uninsured accident and health plans or from the uninsured portion of partially insured plans.

23. Subsequent Events

The Company is not aware of any events occurring subsequent to December 31, 1991, which would have a material effect on the financial position of the Company.

24. Other Items

Financial figures in this statement have been rounded to the nearest whole dollar.

FORM 2

ANNUAL STATEMENT
OF THE
LIBERTY MUTUAL
FIRE INSURANCE
COMPANY

OF
BOSTON
IN THE STATE OF
MASSACHUSETTS

TO THE
Commissioner of Insurance

OF THE
STATE OF

FOR THE YEAR ENDED
DECEMBER 31, 1991

FIRE AND CASUALTY

1991

1991

18.1
Form 2

ANNUAL STATEMENT FOR THE YEAR 1991 OF THE LIBERTY MUTUAL FIRE INSURANCE COMPANY

18.1
Form 2

NOTES TO FINANCIAL STATEMENTS

13. Structured Settlements

- a. The Company has not purchased annuities under which it is both owner and payee.
- b. The Company has purchased annuities from life insurance companies, where the company is the owner and the claimant is the payee. The amount of contingent liability by life insurer is as follows at December 31, 1991:

LIFE INSURANCE COMPANY AND LOCATION	LOSS RESERVES ELIMINATED BY ANNUITIES
Liberty Life Assurance Company of Boston, Boston, Ma.	\$21,500,960
All Other	\$85,234
TOTAL	\$21,586,194

14. Uncollectible Reinsurance

The Company has not charged-off to earnings any reinsurance balances because of uncollectibility.

15. Commutation of Ceded Reinsurance

The Company has not commuted any reinsurance agreements.

16. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Company does not discount its liabilities for unpaid losses and unpaid loss adjustment expenses other than tabular discounting on the long-term annuity portion of certain workers' compensation claims as permitted by insurance regulations in certain states. The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally approximates 3.5%. The December 31, 1991 liabilities include \$158,304,559 of liabilities at a discounted value of \$96,694,527.

17. Salvage and Subrogation

The Company's case reserves for loss and loss adjustment expenses are not reduced for anticipated recoveries of salvage and subrogation. Salvage and subrogation received in cash is reflected as a reduction of paid losses upon receipt. However, the historical paid losses used in developing bulk reserves are net of salvage and subrogation received. As a result, reserves for loss and loss adjustment expenses as reported in Schedule P—ANALYSIS OF LOSSES AND LOSS EXPENSES, Part 3A—UNDERWRITING AND INVESTMENT EXHIBIT, and on Page 3—LIABILITIES, SURPLUS AND OTHER FUNDS, lines #1 and #2, which include bulk reserves, are net of anticipated recoveries of salvage and subrogation at December 31, 1991 and 1990 as follows:

Line	Prior	Net Anticipated Salvage and Subrogation as of 12/91 Accident Year (+000)											TOTAL
		1982	1983	1984	1985	1986	1987	1988	1989	1990	1991		
HOMEOWNERS	0	0	0	2	5	14	24	69	136	150	227	627	
PRIVATE PASSENGER AUTO LIABILITY	0	0	1	5	17	39	74	134	388	836	1,437	2,931	
COMMERCIAL AUTO LIABILITY	0	2	19	6	14	39	52	185	269	449	368	1,403	
WORKERS COMPENSATION	175	42	77	153	386	1,198	2,537	3,479	4,511	4,670	5,437	22,665	
COMMERCIAL MULTIPLE-PERIL	0	0	0	7	13	31	41	112	174	217	191	786	
SPECIAL LIABILITY	0	0	0	0	0	0	0	0	0	0	5	5	
OTHER LIABILITY	0	0	0	0	15	32	22	45	60	41	20	235	
SPECIAL PROPERTY	0	0	0	0	2	8	19	49	42	53	117	290	
AUTOMOBILE PHYSICAL DAMAGE	0	0	0	0	0	0	4	34	168	441	774	1,421	
FIDELITY/SURETY	0	0	0	0	16	3	6	5	3	3	0	36	
PRODUCT LIABILITY	0	0	0	0	11	5	10	17	30	5	22	100	
TOTAL	<u>175</u>	<u>44</u>	<u>97</u>	<u>173</u>	<u>479</u>	<u>1,369</u>	<u>2,789</u>	<u>4,129</u>	<u>5,781</u>	<u>6,865</u>	<u>8,598</u>	<u>30,499</u>	

Line	Prior	Net Anticipated Salvage and Subrogation as of 12/90 Accident Year (+000)										TOTAL
		1982	1983	1984	1985	1986	1987	1988	1989	1990		
HOMEOWNERS	5	0	4	7	5	18	66	116	187	215	623	
PRIVATE PASSENGER AUTO LIABILITY	3	3	5	9	48	60	115	284	667	1,048	2,242	
COMMERCIAL AUTO LIABILITY	2	2	21	7	19	62	66	263	309	381	1,132	
WORKERS COMPENSATION	312	32	119	211	638	1,616	3,291	4,131	4,557	3,664	18,571	
COMMERCIAL MULTIPLE-PERIL	1	0	3	16	17	61	80	165	247	291	881	
SPECIAL LIABILITY	0	0	0	0	0	0	1	0	1	1	2	
OTHER LIABILITY	12	0	0	0	22	32	34	54	71	47	272	
SPECIAL PROPERTY	4	0	1	1	5	15	58	56	65	81	286	
AUTOMOBILE PHYSICAL DAMAGE	0	44	29	23	21	3	36	184	596	1,516	2,452	
FIDELITY/SURETY	2	0	0	3	16	4	6	8	5	3	47	
PRODUCT LIABILITY	29	0	0	5	21	10	15	23	31	4	138	
TOTAL	<u>370</u>	<u>81</u>	<u>182</u>	<u>282</u>	<u>812</u>	<u>1,881</u>	<u>3,767</u>	<u>5,285</u>	<u>6,735</u>	<u>7,251</u>	<u>26,646</u>	

The amounts of anticipated salvage and subrogation reported above include, where information was available or estimable, anticipated salvage and subrogation reflected in the Company's loss and loss adjustment expense reserves assumed from various involuntary pools and associations.

FORM 2

ANNUAL STATEMENT
OF THE
LIBERTY
INSURANCE
CORPORATION

OF
SOUTH BURLINGTON
IN THE STATE OF
VERMONT

TO THE
Commissioner of Insurance

OF THE
STATE OF

FOR THE YEAR ENDED
DECEMBER 31, 1991

R. SYKE

FIRE AND CASUALTY

1991

1991

18.1
Form 218.1
Form 2

ANNUAL STATEMENT FOR THE YEAR 1991 OF THE LIBERTY INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

10. Ceded or Assumed Unpaid Losses and Loss Adjustment Expenses

- a. The Company has no ceded reinsurance transactions involving loss reserve portfolio transfers.
- b. The Company has no assumed reinsurance transactions involving loss reserve portfolio transfers.

11. Unsecured Reinsurance Recoverables

There are no unsecured reinsurance recoverables with an individual reinsurer that exceeds 3% of policyholders' surplus other than amounts arising pursuant to the intercompany pooling arrangement described in note 4(f).

12. Reinsurance Recoverable in Dispute

The Company has no reinsurance recoverable in dispute by reason of notification, arbitration or litigation.

13. Structured Settlements

- a. The Company has not purchased annuities under which it is both owner and payee.
- b. The Company has purchased annuities from life insurance companies where the company is the owner and the claimant is the payee. The amount of contingent liability by life insurer is as follows at December 31, 1991:

LIFE INSURANCE COMPANY AND LOCATION	LOSS RESERVES ELIMINATED BY ANNUITIES
Liberty Life Assurance Company of Boston, Boston, Ma.	\$12,900,575
All Other	\$51,141
TOTAL	\$12,951,716

14. Uncollectible Reinsurance

The Company has not charged-off to earnings any reinsurance balances because of uncollectibility.

15. Commutation of Ceded Reinsurance

The Company has not commuted any reinsurance agreements.

16. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses.

The Company does not discount its liabilities for unpaid losses and unpaid loss adjustment expenses other than tabular discounting on the long-term annuity portion of certain workers' compensation claims as permitted by insurance regulations in certain states. The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally approximates 3.5%. The December 31, 1991 liabilities include \$94,982,736 of liabilities at a discounted value of \$58,016,716.

17. Salvage and Subrogation

The Company's case reserves for loss and loss adjustment expenses are not reduced for anticipated recoveries of salvage and subrogation. Salvage and subrogation received in cash is reflected as a reduction of paid losses upon receipt. However, the historical paid losses used in developing bulk reserves are net of salvage and subrogation received. As a result, reserves for loss and loss adjustment expenses as reported in Schedule P—ANALYSIS OF LOSSES AND LOSS EXPENSES, Part 3a—UNDERWRITING AND INVESTMENT EXHIBIT, and on Page 3—LIABILITIES, SURPLUS AND OTHER FUNDS, lines #1 and #2, which include bulk reserves, are net of anticipated recoveries of salvage and subrogation at December 31, 1991 and 1990 as follows:

Net Anticipated Salvage and Subrogation as of 12/91
Accident Year (+000)

Line	Prior	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	TOTAL
HOMEOWNERS	0	0	0	1	3	9	14	41	82	90	136	376
PRIVATE PASSENGER AUTO LIABILITY	0	0	1	3	10	24	44	80	232	502	862	1758
COMMERCIAL AUTO LIABILITY	0	1	12	4	8	23	31	111	161	270	221	842
WORKERS COMPENSATION	105	26	45	92	231	719	1,522	2,087	2,707	2,802	3,263	13,599
COMMERCIAL MULTIPLE-PERIL	0	0	0	4	9	18	25	67	104	130	115	472
SPECIAL LIABILITY	0	0	0	0	0	0	0	0	0	0	3	3
OTHER LIABILITY	0	0	0	0	9	19	13	27	36	25	12	141
SPECIAL PROPERTY	0	0	0	0	1	5	11	30	25	32	70	174
AUTOMOBILE PHYSICAL DAMAGE	0	0	0	0	0	0	3	20	101	265	464	853
FIDELITY/SURETY	0	0	0	0	9	2	4	3	2	1	0	21
PRODUCT LIABILITY	0	0	0	0	7	3	6	11	18	2	13	60
TOTAL	105	27	58	104	287	822	1,673	2,477	3,468	4,119	5,159	18,299

Net Anticipated Salvage and Subrogation as of 12/90
Accident Year (+000)

Line	Prior	1982	1983	1984	1985	1986	1987	1988	1989	1990	TOTAL
HOMEOWNERS	3	0	2	4	3	11	40	70	112	129	374
PRIVATE PASSENGER AUTO LIABILITY	2	2	3	5	29	36	69	170	400	629	1,345
COMMERCIAL AUTO LIABILITY	1	1	13	4	12	37	39	158	185	229	679
WORKERS COMPENSATION	187	19	72	126	383	969	1,975	2,479	2,734	2,199	11,143
COMMERCIAL MULTIPLE-PERIL	1	0	2	10	11	36	48	99	148	174	529
SPECIAL LIABILITY	0	0	0	0	0	0	0	1	0	0	1
OTHER LIABILITY	7	0	0	0	13	19	20	33	43	28	163
SPECIAL PROPERTY	2	0	0	0	3	9	35	34	39	49	171
AUTOMOBILE PHYSICAL DAMAGE	0	27	18	13	13	2	21	110	357	910	1,471
FIDELITY/SURETY	1	0	0	2	10	2	4	5	3	2	29
PRODUCT LIABILITY	17	0	0	3	12	6	9	14	19	3	83
TOTAL	221	49	110	167	489	1,127	2,260	3,173	4,040	4,352	15,988

The amounts of anticipated salvage and subrogation reported above include, where information was available or estimable, anticipated salvage and subrogation reflected in the Company's loss and loss adjustment expense reserves assumed from various involuntary pools and associations.